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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

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

Commission File Number: 0-23246

DAKTRONICS, INC. (Exact name of Registrant as specified in its charter)	
South Dakota (State or other jurisdiction of incorporation or organization)	46-0306862 (I.R.S. Employer Identification Number)
201 Daktronics Drive Brookings SD (Address of principal executive offices)	57006 (Zip Code)
(605) 692-0200 (Registrant's telephone number, including area code)	

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

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

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

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

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

Recent Accounting Pronouncements

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

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

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amended guidance gives entities the option to perform a qualitative impairment assessment to determine whether it is more-likely-than-not that an indefinite lived intangible asset is impaired. An entity must identify and evaluate changes in economic, industry and entity-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset and whether it is more-likely-than-not that the fair value exceeds its carrying amount. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this amended guidance is not expected to have a material impact on our consolidated results of operations or financial condition, as the ASU only impacts the analysis to be performed.

Note 2. Earnings Per Share ("EPS")

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

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

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

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

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

Note 3. Goodwill

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

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

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

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

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Note 4. Inventories

Inventories consisted of the following:

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

Note 5. Segment Disclosure

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

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

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales:				
United States	$125,835	$117,630	$241,494	$215,728
Outside U.S.	24,036	18,280	41,296	38,879
	$149,871	$135,910	$282,790	$254,607

	October 27, 2012	April 28, 2012
Long-lived assets:		
United States	$62,506	$66,350
Outside U.S.	1,901	2,046
	$64,407	$68,396

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

Note 6. Commitments and Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

$3,036

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

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Note 7. Income Taxes

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

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

Note 8. Fair Value Measurement

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

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

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

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

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

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

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