

DAKTRONICS INC /SD/
Form 10-Q
November 25, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Quarterly Period Ended October 31, 2009

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or

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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

Accelerated filer S

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No S

The number of shares of the registrant’s common stock outstanding as of November 23, 2009 was 41,033,713.

DAKTRONICS, INC. AND SUBSIDIARIES
 FORM 10-Q
 For the Quarter Ended October 31, 2009

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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 31, 2009 (unaudited)	May 2, 2009 (note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$56,363	\$36,501
Restricted cash	1,392	1,083
Accounts receivable, less allowance for doubtful accounts	48,517	61,412
Inventories	41,946	51,400
Costs and estimated earnings in excess of billings	25,525	27,541
Current maturities of long-term receivables, less allowance for doubtful accounts	6,673	7,962
Prepaid expenses and other	5,681	5,587
Deferred income taxes	15,283	15,017
Income tax receivable	324	-
Property and equipment available for sale	250	470
Total current assets	201,954	206,973
Advertising rights, net	1,688	2,392
Long-term receivables, less current maturities	14,009	15,879
Investments in affiliates	430	2,541
Goodwill	4,658	4,549
Intangible and other assets	4,212	2,804
Deferred income taxes	391	311
	25,388	28,476
PROPERTY AND EQUIPMENT:		
Land	1,204	1,204
Buildings	50,918	50,810
Machinery and equipment	52,324	50,013
Office furniture and equipment	53,266	52,369
Equipment held for rental	2,695	2,423
Demonstration equipment	8,780	8,021
Transportation equipment	4,662	5,115
	173,849	169,955
Less accumulated depreciation	90,403	80,528
	83,446	89,427
TOTAL ASSETS	\$310,788	\$324,876

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

	October 31, 2009 (unaudited)	May 2, 2009 (note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$21,541	\$30,273
Accrued expenses and warranty obligations	32,023	35,548
Current maturities of long-term debt and marketing obligations	479	367
Billings in excess of costs and estimated earnings	8,537	13,769
Customer deposits	10,427	10,007
Deferred revenue (billed or collected)	7,061	6,669
Income taxes payable	422	2,935
Total current liabilities	80,490	99,568
Long-term debt, less current maturities	13	23
Long-term marketing obligations, less current maturities	538	759
Long-term warranty obligations and other payables	4,324	4,805
Deferred income taxes	4,996	4,948
Long-term deferred revenue (billed or collected)	3,348	2,862
Total long-term liabilities	13,219	13,397
TOTAL LIABILITIES	93,709	112,965
SHAREHOLDERS' EQUITY:		
Common stock, no par value, authorized 120,000,000 shares; 40,871,382 and 40,657,552 shares issued at October 31, 2009 and May 2, 2009, respectively	28,943	27,872
Additional paid-in capital	15,610	13,898
Retained earnings	173,113	170,705
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive loss	(578)	(555)
TOTAL SHAREHOLDERS' EQUITY	217,079	211,911
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$310,788	\$324,876

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

	Three Months Ended		Six Months Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net sales	\$ 115,362	\$ 169,697	\$ 228,815	\$ 330,926
Cost of goods sold	81,800	121,486	165,183	237,367
Gross profit	33,562	48,211	63,632	93,559
Operating expenses:				
Selling	12,888	15,526	27,255	31,890
General and administrative	5,959	7,554	12,493	15,236
Product design and development	5,534	5,286	11,404	11,833
	24,381	28,366	51,152	58,959
Operating income	9,181	19,845	12,480	34,600
Nonoperating income (expense):				
Interest income	379	511	753	1,047
Interest expense	(63)	(57)	(110)	(164)
Other income (expense), net	(711)	(1,334)	(1,313)	(1,679)
Income before income taxes	8,786	18,965	11,810	33,804
Income tax expense	3,937	6,768	5,529	11,881
Net income	\$ 4,849	\$ 12,197	\$ 6,281	\$ 21,923
Weighted average shares outstanding:				
Basic	40,831	40,478	40,795	40,440
Diluted	41,002	41,221	41,106	41,286
Earnings per share:				
Basic	\$ 0.12	\$ 0.30	\$ 0.15	\$ 0.54
Diluted	\$ 0.12	\$ 0.30	\$ 0.15	\$ 0.53
Cash dividend paid per share	\$ -	\$ -	\$ 0.095	\$ 0.090

See notes to consolidated
financial statements.

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

	Six Months Ended	
	October 31, 2009	November 1, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 6,281	\$ 21,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,123	11,872
Amortization	157	157
Gain on sale of property and equipment	(26)	(977)
Stock-based compensation	1,712	1,594
Equity in losses of affiliates	1,347	1,266
Provision for doubtful accounts	(269)	69
Loss on sale of equity investee	231	-
Deferred income taxes, net	(299)	(191)
Change in operating assets and liabilities	9,400	(20,021)
Net cash provided by operating activities	29,657	15,692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,247)	(16,569)
Loans to equity investees	-	(500)
Purchases of receivables from equity investee, net	(306)	-
Proceeds from sale of property and equipment	104	2,947
Proceeds from sale of equity method investments	535	-
Net cash used in investing activities	(5,914)	(14,122)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on notes payable	(13)	(546)
Proceeds from exercise of stock options	207	578
Excess tax benefits from stock-based compensation	-	159
Dividend paid	(3,874)	(3,635)
Net cash used in financing activities	(3,680)	(3,444)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(201)	237
INCREASE IN CASH AND CASH EQUIVALENTS	19,862	(1,637)
CASH AND CASH EQUIVALENTS:		
Beginning	36,501	9,325
Ending	\$ 56,363	\$ 7,688

Supplemental disclosures of cash flow information:

Cash payments for:

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Interest:	\$	202	\$	219
Income taxes, net of refunds		8,375		8,346

Supplemental schedule of non-cash investing and financing activities:

Demonstration equipment transferred to inventory		929		869
Purchase of property and equipment included in accounts payable		-		261
Conversion of accounts receivable to equity interest in affiliate		-		1,947

See notes to consolidated financial statements.

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

Note 1. Basis of Presentation and Summary of Critical Accounting 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 May 2, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended May 2, 2009, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

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

Investments in affiliates are accounted for by the equity method. We have evaluated our relationships with affiliates and have determined that these entities are either not variable interest entities or, in the case of variable interest entities, we are not the primary beneficiary and therefore they are not required to be consolidated in our Consolidated Financial Statements. Accordingly, our proportional share of the respective affiliate's earnings or losses is included in other income (expense) in our consolidated statement of income.

We have a variable interest in OutCast Media International, Inc. ("OutCast"). The results of the variable interest analysis we completed indicated that we are not the primary beneficiary of this variable interest entity and, as a result, we are not required to consolidate it. Our interest in OutCast consists of a 37% equity interest, debt owed by OutCast in the amount of \$1.6 million, and a guarantee of debt in as described in Note 10. OutCast operates the largest pumptop display network in the United States. Our maximum exposure to loss related to OutCast is approximately \$3.4 million.

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

which they become known.

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

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

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

Insurance: We are self-insured for certain losses related to health and liability claims and workers' compensation, although we obtain third-party insurance to limit our exposure to these claims. We estimate our self-insured liabilities using a number of factors, including historical claims experience. Our self-insurance liability was \$3,046 and \$2,506 at October 31, 2009 and May 2, 2009, respectively, and is included in accrued expenses and warranty obligations in our consolidated balance sheets.

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

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

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

Receivables: Accounts receivable are reported net of an allowance for doubtful accounts of \$1,895 and \$2,164 at October 31, 2009 and May 2, 2009, respectively.

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

In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding six months and sales type leases. The present value of these contracts and leases is recorded as a receivable upon the installation and acceptance of the equipment, and profit is recognized to the extent that the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid.

Note 2. Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

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

In November 2008, the FASB ratified ASC Subtopic 350-30-35-5A, Accounting for Defensive Intangible Assets. ASC Subtopic 350-30-35-5A applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. ASC 350-30-35-5A requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity’s existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with ASC 805 Business Combinations and ASC 820 Fair Value Measurement and Disclosure. ASC 350-30-35-5A is effective for intangible assets acquired for fiscal years beginning after December 15, 2008. We adopted ASC 350-30-35-5A on May 3, 2009, and any intangible asset acquired after that date will be subject to this new accounting guidance.

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

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events

or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for fiscal years and interim periods ending after June 15, 2009. We adopted ASC 855 on May 3, 2009. The adoption of ASC 855 did not have a material impact on our consolidated financial statements.

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

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

Note 3. Revenue Recognition

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

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

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

amount may be recognized as revenue.

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

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

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

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

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

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

The cost of advertising rights, net of amortization, was \$1,688 as of October 31, 2009 and \$2,392 as of May 2, 2009.

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

Software: We typically sell our proprietary software bundled with video displays and certain other products, but we also sell our software separately. Pursuant to ASC 985-605, Software/Revenue Recognition, revenues from software

license fees on sales, other than construction-type contracts, are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed and determinable and collection is probable. For sales of software included in construction-type contracts, the revenue is recognized under the percentage-of-completion method starting when all of the above-mentioned criteria have been met.

Services: Revenues generated by us for services such as event support, control room design, on-site training, equipment service and technical support for our equipment are recognized as net sales when the services are performed. Net sales from services offerings which are not included in construction-type contracts approximated 8.0% and 4.9% of net sales for the six months ended October 31, 2009 and November 1, 2008, respectively.

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

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

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

There were no derivatives outstanding as of October 31, 2009.

Note 4. Earnings Per Share (“EPS”)

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

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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 31, 2009 and November 1, 2008 follows:

	Net Income	Shares	Per Share Amount
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For the three months ended October 31, 2009:

Basic earnings per share	\$	4,849	40,831	\$	0.12
Dilution associated with stock compensation plans		-	171		-
Diluted earnings per share	\$	4,849	41,002	\$	0.12

For the three months ended November 1, 2008:

Basic earnings per share	\$	12,197	40,478	\$	0.30
Dilution associated with stock compensation plans		-	743		-
Diluted earnings per share	\$	12,197	41,221	\$	0.30

For the six months ended October 31, 2009:

Basic earnings per share	\$	6,281	40,795	\$	0.15
Dilution associated with stock compensation plans		-	311		-
Diluted earnings per share	\$	6,281	41,106	\$	0.15

For the six months ended November 1, 2008:

Basic earnings per share	\$	21,923	40,440	\$	0.54
Dilution associated with stock compensation plans		-	846		(0.01)
Diluted earnings per share	\$	21,923	41,286	\$	0.53

Note 5. Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with ASC 350, Goodwill and Other Intangible Assets, and we complete an impairment analysis on at least an annual basis and more frequently if circumstances warrant.

Goodwill was \$4,658 at October 31, 2009 and \$4,549 at May 2, 2009. We perform an impairment test of goodwill annually as of the first day of the third quarter. In addition, due to the then current economic conditions, the effects of the recession on our markets and the decline in our stock price, we performed an additional goodwill impairment test as of May 2, 2009. The result of the test at each time indicated that no goodwill impairment existed as of those dates.

As required by ASC 350, intangibles with finite lives are amortized. Included in intangible assets are non-compete agreements, various patents and trademarks. The net value of intangible assets is included as a component of intangible and other assets in the accompanying consolidated balance sheets. Estimated amortization expense based on intangibles as of October 31, 2009 is \$315, \$288, \$245, \$228, \$228 for the fiscal years ending 2010, 2011, 2012, 2013 and 2014, respectively, and \$552 thereafter. The following table sets forth the gross carrying amount and accumulated amortization of intangible assets by major intangible class as of October 31, 2009:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents	\$ 2,282	\$ 704	\$ 1,578
Non-compete agreements	348	245	103
Registered trademarks	401	-	401
Other	87	71	16
	\$ 3,118	\$ 1,020	\$ 2,098

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Note 6. Inventories

Inventories consist of the following:

	October 31, 2009	May 2, 2009
Raw materials	\$ 14,269	\$ 20,644
Work-in-process	6,717	7,561
Finished goods	19,450	23,195
Finished goods subject to deferred revenue arrangements	1,510	-
	\$ 41,946	\$ 51,400

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

Note 7. Segment Disclosure

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

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

Segment reports present results through contribution margin, which is comprised of gross profit less selling costs. Segment profit excludes general and administration expense, product development expense, interest income and expense, non-operating income and income tax expense. Assets are not allocated to the segments. Depreciation and amortization, excluding that portion related to non-allocated costs, are allocated to each segment based on various financial measures. In general, segments follow the same accounting policies as those described in Note 1. Costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events and Schools and Theatres segments based on cost of sales. Shared manufacturing, building and utilities and procurement costs are allocated based on direct hours, square footage and other various financial measures. Beginning in fiscal 2010, we ceased allocation of general and administrative and product development expenses to reflect our management approach to these costs. Fiscal 2009 segment results have been retrospectively adjusted to conform to these changes.

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

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

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	Three Months Ended		Six Months Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net sales				
Commercial	\$ 24,873	\$ 47,794	\$ 48,108	\$ 96,184
Live Events	48,949	78,403	102,844	141,491
Schools & Theatres	18,766	22,680	37,200	39,661
Transportation	10,590	8,727	23,220	18,299
International	12,184	12,093	17,443	35,291
Net Sales	115,362	169,697	228,815	330,926
Contribution margin				
Commercial	3,470	8,770	4,369	17,512
Live Events	10,358	21,992	20,232	36,495
Schools & Theatres	2,193	3,040	4,656	3,824
Transportation	2,764	545	6,249	1,419
International	1,889	(1,661)	871	2,419
Total Contribution Margin	20,674	32,686	36,377	61,669
Non-allocated operating expenses				
General & Administrative	5,959	7,555	12,493	15,236
Product Development	5,534	5,286	11,404	11,833
Operating income	9,181	19,845	12,480	34,600
Nonoperating income (expense):				
Interest income	379	511	753	1,047
Interest expense	(63)	(57)	(110)	(164)
Other income (expense), net	(711)	(1,334)	(1,313)	(1,679)
Income before income taxes	8,786	18,965	11,810	33,804
Income tax expense	3,937	6,768	5,529	11,881
Net income	\$ 4,849	\$ 12,197	\$ 6,281	\$ 21,923
Depreciation and amortization				
Commercial	\$ 1,779	\$ 1,976	\$ 3,650	\$ 3,938
Live Events	1,901	2,215	3,736	4,345
Schools & Theatres	714	822	1,450	1,641
Transportation	419	475	909	981
International	230	156	440	319
Unallocated corporate depreciation	521	422	1,095	805
	\$ 5,564	\$ 6,066	\$ 11,280	\$ 12,029

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

	United States	Others	Total
Net sales for three months ended:			
October 31, 2009	\$ 101,017	\$ 14,345	\$ 115,362
November 1, 2008	151,092	18,605	169,697

Net sales for six months
ended:

October 31, 2009	\$	207,619	\$	21,196
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