

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.